

Report to	-	Audit and Standards Committee
Date	-	26 June 2017
Report of the	-	Executive Director of Resources
Subject	-	Internal Audit – Peer Review

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**Recommendation:** It be **RESOLVED:** That the information in the report be noted.

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**Audit Manager: Gary Angell**

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### **Introduction**

1. As previously reported in the annual self-assessment of the Council's Internal Audit Service (Review of Internal Audit), it is a requirement of the Public Sector Internal Audit Standards that an external review is carried out at least once every five years.
2. When these standards first came into effect in April 2013, the Sussex Audit Group, which is comprised of Audit Managers from the local authorities in East and West Sussex, decided to carry out peer reviews rather than external reviews and to carry out this work on a reciprocal basis to avoid any financial cost. This work was planned to ensure that neighbouring authorities did not audit each other and to enable a "critical friend" review to take place prior to the formal review.
3. The "critical friend" role for Rother was carried out by the Audit and Risk Manager at Crawley Borough Council in September 2016 and the feedback received was positive. A full review of Rother's Internal Audit Service was then carried out by the Chief Internal Auditors at Arun and Horsham District Councils and their findings reported in April 2017.

### **Review Methodology**

4. The first part of the peer review consisted of a detailed examination of Internal Audit's policies and procedures, and was designed to assess the section's purpose and positioning, its structure and resources, and its working methods against accepted good practice. During this process, the Assessment Team was provided with a wealth of information about how the Rother Internal Audit Service operates including examples of forms, documents and work carried out by the section so that these could be compared to the requirements of the Public Sector Internal Audit Standards. Questionnaires were also sent to the Executive Directors, all Service Managers and the Chairman of the Audit Committee to obtain "customer" feedback and to determine whether or not Internal Audit's work is having a positive impact on the Council.
5. The second part of the process involved the Audit Manager (a) reviewing the findings of the Assessment Team's draft report and responding to any

recommendations for improvement, and (b) adding his own assessment of how well the Internal Audit team is performing, taking into account the comments made in the customer feedback section.

## **Peer Review Findings**

6. The Assessment Team's final report has now been issued and is reproduced in Appendix A. The overall outcome of the review is a good one, with no significant issues found, and the Assessment Team concluding that *"the Internal Audit Service of Rother District Council generally conforms with the Public Sector Internal Audit Standards (PSIAS) and general good practice for the profession"*.

## **Further Action**

7. The peer review makes a total of nine recommendations (A to I). All of these are relatively minor in nature but they provide some useful pointers to how the Internal Audit Service can work towards full conformance with the Public Sector Internal Audit Standards. An additional four recommendations (J to M) were also added by the Audit Manager prior to the report being finalised, in response to customer feedback. With the exception of two recommendations (B and C), all of the points made in the report have been accepted and will be implemented. Moreover, three of the recommendations had already been addressed prior to the report being issued.
8. The action plan produced following the latest self-assessment exercise in March 2017 (Minute AU16/32) has now been updated in light of the peer review findings and all recommendations that still needed to be implemented at the time the final report was issued (April 2017) have been incorporated into a revised action plan in Appendix B.

Malcolm Johnston  
Executive Director of Resources

## **Risk Assessment Statement**

A strong, independent and well supported Internal Audit function ensures that the Council does not suffer from poor internal control systems.

**Quality Assurance and Improvement Programme  
Revised Action Plan for 2017/18**

Reference	Standard	Action [Status]	Officer Responsible For Delivery	Due Date
3.4.3	1312	Report the results of Rother Internal Audit's first external peer review to the Audit & Standards Committee. <b>[Completed]</b>	Audit Manager	26 June 2017
4.1.5	2050	Carry out an assurance mapping exercise if the external peer review recommends that a more detailed assurance map is required. <b>[Not started]</b> – <i>This point is also repeated in Recommendation F below</i>	Audit Manager	31 March 2018
		Reinstate quarterly meetings with External Audit once Rother's new BDO manager is confirmed. <b>[Not started – still awaiting the appointment of a new BDO manager]</b>	Audit Manager	30 June 2017
4.2.1	2110	Review the scope of the proposed Ethics Audit in light of the outcomes of the external and corporate peer reviews and then, if still required, carry out an initial desktop review of the adequacy of the framework of policies and procedures governing ethical standards at the Council. <b>[Not started]</b>	Audit Manager	31 March 2018

**Additional Actions Required as a Result of the Peer Review**

Recommendation		Action [Status]	Officer Responsible For Delivery	Due Date
A	At the next review of the Charter, consideration should be given to:- – Identifying that the Definition is also that adopted by CIPFA – Identifying that the PSIAS relate to CIPFA and their professional requirements – Including reference to the Mission Statement and 10 Core Principles that have been included in the PSIAS from April 2016	The Internal Audit Charter will be updated to incorporate these and any other minor amendments. The revised Charter will then be reported to the Audit & Standards Committee in June 2017 for approval. <b>[Completed]</b>	Audit Manager	30 June 2017

Recommendation		Action [Status]	Officer Responsible For Delivery	Due Date
D	Council senior management should be requested to agree an appropriate statement of risk appetite for inclusion in the Council's risk management strategy.	Consideration will be given to defining the Council's risk appetite and this point will be discussed at SMT to determine the best way forward. <b>[Not started]</b>	Executive Director of Resources	31 March 2018
E	Consideration should be given to assessing the risks that the audit service itself faces and communicating these to the Audit Committee – possibly through inclusion in the annual audit report.	A risk assessment of the Internal Audit Service's own risks will be carried out and the findings will be reported to the Audit & Standards Committee if relevant. <b>[Not started]</b>	Audit Manager	31 March 2018
F	The Action Plan from the annual review has identified the need for an assurance mapping exercise to be performed to determine the Internal Audit approach to using other sources of assurance.	This action point has already been identified by the Audit Manager as part of his own annual assessment. An assurance map will be produced in 2017/18. <b>[Not started]</b>	Audit Manager	31 March 2018
I	It should be noted that PSIAS 1321 advises that the chief audit executive may state that the internal audit activity conforms with the International Standards only if the results of the quality assurance and improvement programme support this statement. As these results include the results of both internal and external assessments, consideration should be given to the wording used until such time as compliance has been confirmed.	We have never claimed to be <u>fully</u> compliant with the Standards but we accept that the wording used by the Audit Manager in his 2016/17 annual report could be interpreted in that way. In future, we will adopt the wording "generally conforms" in line with the conclusion of this peer review assessment, until such time as all the points raised by this review have been addressed. <b>[Completed]</b>	Audit Manager	30 June 2017
J	Consideration should be given to raising the profile of internal audit with a view to promoting greater understanding of its purpose and objectives.	Consideration will be given as to the best way forward. <b>[Work-in-progress – some action already taken in response to recommendation M]</b>	Audit Manager	31 March 2018
K	Update and share information on how internal audit assurance ratings are arrived at with a view to increasing senior management understanding.	The assurance levels will be updated and shared with senior management. They will also be discussed with Service Managers at the next round of meetings. <b>[Completed]</b>	Audit Manager	30 June 2017
M	Staff should be encouraged to make better use of internal audit's business knowledge to help improve business processes and meet strategic objectives.	The Audit Manager has sent an email to all staff reminding them of this point. The Audit Manager will discuss this matter further at the next round of Service Manager meetings. <b>[Completed]</b>	Audit Manager	30 June 2017

Note – (1) Recommendations B and C are not shown above as there are no plans to implement them at the moment. (2) Recommendations G, H and L are also excluded as remedial action was taken to address these points as soon as they were raised in the draft report.